

2009

THIRD QUARTER REPORT



Common Stock

IKONICS Corporation common stock is traded on the Nasdaq Capital Market under the symbol IKNX.

Transfer Agent

Wells Fargo Shareowner Services
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St. Paul, MN 55164-0854

Shareholders with questions on stock holdings, transfer requirements and address changes contact Wells Fargo Bank at 651-450-4064 or 800-468-9716.

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Summary of Quarterly Statements

(Thousands of Dollars, Except Per Share Information)

Quarter Ended	2009			2008			2007		
	Net Sales	Net Income (Loss)	Earnings (Loss) Per Share	Net Sales	Net Income	Earnings Per Share	Net Sales	Net Income	Earnings Per Share
March 31	\$3,563	\$ 53	\$0.03	\$3,781	\$106	\$0.05	\$3,508	\$139	\$0.07
June 30	3,787	147	0.07	4,330	358	0.17	4,375	331	0.16
September 30	3,921	(709)	(0.36)	3,833	238	0.11	4,017	354	0.17
December 31	\$11,270	\$(510)	\$(0.26)	\$15,854	\$814	\$0.40	\$15,825	\$1,170	\$0.57

Unaudited Interim Financial Statements
(Some columns may not add due to rounding)



TO OUR STOCKHOLDERS:

In the third quarter of 2009 we experienced a rebound in business, but suffered a write-off of our investment in Imaging Technology International (iTi) as they ceased operations due to an inability to refinance the current portion of their debt.

Sales for the third quarter of 2009 were \$3,921,000, a 2.3% increase over the third quarter of 2008, and a 3.5% increase over the second quarter of 2009. Excluding the \$919,000 write off of the investment in iTi, pre-tax earnings for the third quarter

of 2009 were \$320,000, up 48% over pre-tax earnings for the second quarter of 2009 and up 9.6% compared to the third quarter of 2008. Pre-tax loss for the third quarter of 2009 was \$599,000 and the net loss for the quarter was \$709,000, or \$0.36 per share. This is IKONICS' second consecutive quarter of sales growth, and it appears that the recession may be weakening. At the end of the 2009 third quarter, the company's cash and short term investment position had increased to \$1,578,000.

The write off and the loss of iTi as a supplier for our DTX printers is certainly an unwelcomed event. However, we are working on alternatives to iTi as our supplier of printers and believe we have two viable options. We hope to be in the market with these printers in the first half of 2010 and plan to have one of our iTi manufactured machines placed at a beta site before the end of this year.

I am pleased that our sales are improving and particularly gratified by the progress of our IKONICS Acoustics and Photo-Machining initiatives, both of which are showing good sales. We are also in the process of doubling our Photo-Machining manufacturing capacity.

For the Board of Directors,

WILLIAM C. ULLAND
Chairman, President & CEO

Condensed Statements of Operations (unaudited)

For the Three Months and Nine Months Ended September 30, 2009 and 2008

	Three Months Ended		Nine Months Ended	
	09/30/09	09/30/08	09/30/09	09/30/08
Net sales	\$ 3,920,663	\$3,832,783	\$ 11,270,376	\$11,943,690
Cost of goods sold	2,337,757	2,178,597	6,825,654	6,798,858
Gross profit	1,582,906	1,654,186	4,444,722	5,144,832
Operating expenses	1,266,276	1,406,983	3,906,972	4,311,623
Income from operations	316,630	247,203	537,750	833,209
Gain on sale of investment	-	24,550	29,762	24,550
Loss on investment	(918,951)	-	(918,951)	-
Interest income	3,070	19,890	5,190	87,262
Income (loss) before income taxes	(599,251)	291,643	(346,249)	945,021
Income tax expense	110,134	53,810	163,253	243,113
Net income (loss)	\$ (709,385)	\$ 237,833	\$ (509,502)	\$ 701,908
Earnings (loss) per common share-diluted	\$ (0.36)	\$ 0.11	\$ (0.26)	\$ 0.34
Average shares outstanding-diluted	1,967,057	2,073,925	1,975,911	2,070,134

Condensed Balance Sheets

As of September 30, 2009 and December 31, 2008

	09/30/09	12/31/08
Assets	(unaudited)	
Current assets	\$ 5,920,080	\$ 5,562,130
Property, plant and equipment, net	5,345,301	5,602,063
Investment in non-marketable equity securities	-	918,951
Intangible assets, net	357,619	403,285
	<u>\$ 11,623,000</u>	<u>\$ 12,486,429</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 627,682	\$909,789
Deferred income taxes	178,000	143,000
Long-term debt	-	-
Stockholders' equity	10,817,318	11,433,640
	<u>\$ 11,623,000</u>	<u>\$ 12,486,429</u>

Condensed Statements of Cash Flow (unaudited)

For Nine Months Ended September 30, 2009 and 2008

	09/30/09	09/30/08
Net cash provided by operating activities	\$ 857,258	\$ 1,009,363
Net cash provided by (used in) investing activities	(657,289)	621,926
Net cash used in financing activities	(123,844)	(380,181)
Net increase in cash and cash equivalents	76,125	1,251,108
Cash and cash equivalents at beginning of period	901,738	1,230,020
Cash and cash equivalents at end of period	<u>\$ 977,863</u>	<u>\$ 2,481,128</u>

Unaudited interim financial information. Some columns may not add due to rounding.

The preceding letter contains statements regarding future financial results, new products and businesses, and other matters that involve risks and uncertainties. The Company's actual results could differ materially as a result of domestic and global economic conditions, competitive market conditions, acceptance of new products and businesses, the ability to identify and make suitable acquisitions, as well as the factors described in the company's most recent Form 10-KSB and most recent Form 10-Q on file with the SEC.